

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 CIAE-00 DODE-00 PM-07 INR-10

L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 SAM-01 EB-11 TRSE-00 FEA-02 COME-00 INT-08

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INFO AMEMBASSY BONN

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CINCPAC HONOLULU HAWAII

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E.O. 11652 N/A

TAGS: ENRG, JA

SUBJ: GOJ INTERNAL ENERGY POLICIES

CINCPAC FOR POLAD

SUMMARY DURING REVIEW OF JAPANESE INTERNAL ENERGY POLICIES,
HEAD OF COORDINATION DIV. OF RESOURCES AND ENERGY AGENCY
TOLD E/COUNS THAT A) ELECTRIC UTILITIES HAD REQUESTED 68-78
PERCENT INCREASES IN RATES BUT MITI WOULD ATTEMPT SCALE DOWN
INCREASES AND DELAY IMPLEMENTATION SOMEWHAT; B) SOME REL-
AXATION OF OIL PRICE CONTROLS APPEARED TO BE JUSTIFIED IN
VIEW OF RECENT HIGHER CRUDE OIL COSTS; C) OIL CONSUMPTION
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CONTROLS WOULD BE CONTINUED IN APRIL AND PROBABLY IN MAY;

D) PLANS FOR VERTICALLY INTEGRATING JAPANESE OIL FIRMS ARE UNDER STUDY WITHIN MITI BUT MIGHT BE DIFFICULT TO REALIZE.
END SUMMARY.

1. E/COUNS MET WITH KURIHARA, HEAD OF GENERAL COORDINATION DIV. OF MITI'S RESOURCES AND ENERGY AGENCY, APRIL 4 FOR WIDE RANGING DISCUSSION OF ISSUES FACING AGENCY AT THIS TIME. KURIHARA BEGAN BY SAYING THAT THOUGH PROBLEMS RELATED TO OIL WERE SOMEWHAT LESS INTENSE AT MOMENT, CONTROVERSY SURROUNDING ELECTRIC UTILITY RATES HAD TAKEN THEIR PLACE. TWO MAJOR JAPANESE UTILITIES, TOKYO ELECTRIC AND CHUBU ELECTRIC (SERVING NAGOYA AREA), HAD JUST ANNOUNCED THAT THEY HAD REQUESTED MITI PERMISSION TO RAISE UTILITY RATES BY AN AVERAGE OF 68 PERCENT AND 78 PERCENT RESPECTIVELY. OTHER ELECTRIC UTILITIES EXPECTED TO FOLLOW SUIT LATER. KURIHARA NOTED THAT MITI WOULD CONSIDER RATE INCREASES AND SOMETIME AFTER MAY 1 WOULD GRANT INCREASES WHICH IT HOPES WOULD BE LESS THAN THOSE SOUGHT BY COMPANIES. INCREASES WOULD BE BROKEN INTO THREE PARTS: HOUSEHOLDS USING LESS THAN 100 KW -- NO RATE INCREASE; HOUSEHOLDS AND SMALL BUSINESSES USING 100-200 KW--SMALL INCREASES; INDUSTRIES AND USERS OF OVER 200 KW--LARGEST INCREASES. KURIHARA NOTED THAT THIS ACTION WOULD REDUCE RATE GAP BETWEEN HOUSEHOLD AND INDUSTRIAL CONSUMERS--ELECTRIC UTILITY RATES FOR HOUSEHOLDS ARE NOW 2.3 TIMES RATES FOR INDUSTRY.

2. REGARDING CURRENT PRICE FREEZE ON PETROLEUM PRODUCTS (SEE TOKYO 3641) KURIHARA AT PRESENT SAID THAT IN PRINCIPLE FREEZE WOULD BE MAINTAINED AT PRESENT LEVEL FOR SIX MONTHS UNLESS THERE WERE SIGNIFICANT CHANGES IN CRUDE OIL COSTS. WHEN E/COUNS NOTED RECENT CRUDE OIL PRICE HIKES BY INDONESIANS AND MAJORS, KURIHARA ACKNOWLEDGED THAT IN FACT THERE WAS NOW JUSTIFICATION FOR RAISING PRICES OF PETROLEUM PRODUCTS AS MAJORS HAD REQUESTED, SINCE AVERAGE EOB. COST OF CRUDE TO JAPAN NOW LITTLE BELOW \$10.00. KURIHARA ADDED THAT GOJ HAD FORESEEN SUCH SITUATION AND FOR THIS REASON HAD OPTED TO USE "ADMINISTRATIVE GUIDANCE" RATHER THAN LEGISLATIVE AUTHORITY IN CONTROLLING PRICES (TOKYO 3641). ADVANTAGES OF THIS METHOD WERE THAT MAJORS LIMITED OFFICIAL USE

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COULD SEE THAT GOJ HAD FLEXIBILITY TO RAISE PRICES AND THAT POLITICAL PROBLEMS WOULD BE LESSENED IF PRICES HAD TO BE CHANGED. KURIHARA AVOIDED FLAT PREDICTION THAT CURRENTLY FROZEN OIL PRODUCT PRICES WOULD BE RAISED, PROBABLY BECAUSE DECISION IS POLITICAL RATHER THAN ADMINISTRATIVE LEVEL ISSUE AT THIS POINT.

3. RESPONDING TO QUESTION ABOUT WHETHER PRICE FREEZE

MIGHT LEAD TO CRUDE OIL SHORTAGES IN APRIL - JUNE PERIOD, KURIHARA SAID FORECASTS WERE EXTREAMELY DIFFICULT. ON SUPPLY SIDE, MITI HAD NO ACCURATE FIX ON PROBABLE LEVEL OF OIL IMPORTS, BUT IN GENERAL IT WAS TRYING TO KEEP THEM AT A LOW LEVEL. ON DEMAND SIDE, GOJ HOPED THAT TIGHT MONEY POLICY WOULD REDUCE DEMAND FOR OIL OR AT LEAST KEEP IT FROM RISING. HOWEVER, MITI WAITING FOR SITUATION TO BECOME CLEARER RE BOTH SUPPLY AND DEMAND BEFORE MAKING PROJECTIONS.

4. KURIHARA ALSO NOTED THAT CONTROLS ON OIL CONSUMPTION THAT HAD BEEN IN EFFECT IN MARCH (SEE TOKYO 2610) WOULD BE CONTINUED AT LEAST THRU APRIL. LEGAL REASON FOR THIS WAS THREAT OF FURTHER OIL SHORTAGES. ACTUALLY, HOWEVER, CONTINUATION OF CONTROLS WAS SEEN BY GOJ AS AN ADDITIONAL MEASURE CONTRIBUTING TO SUCCESS OF TIGHT MONEY ANTI-INFLATIONARY POLICIES. (COMMENT: THIS POLICY IS APPARENTLY BASED ON BELIEF IN MOF THAT INDUSTRY WILL REDUCE INVESTMENT IN NEW PLANT AND EQUIPMENT IF IT IS MADE CLEAR THAT OIL CONSUMPTION CONTROLS WILL CONTINUE.) WHILE IT POSSIBLE THAT CONSUMPTION CONTROLS WILL BE DROPPED AT END OF APRIL IF TIGHT MONEY POLICIES PROVE SUCCESSFUL, KURIHARA THOUGHT POSSIBILITY OF CONTINUATION OF CONTROLS IN MAY WAS MUCH GREATER.

5. E/COUNS THEN ASKED ABOUT PRESS REPORTS THAT MITI WOULD EXTEND 500 BILLION YEN IN SPECIAL LOANS TO REFINERS. KURIHARA SAID THIS WAS RESULT OF GOJ'S TIGHT MONEY POLICY. BEGINNING IN MAY REFINERS HAD TO PAY FOR OIL IMPORTED IN JANUARY, WHICH WAS DOUBLE COST OF OIL IMPORTED IN DECEMBER AT TIME WHEN PRICE FREEZE HAD DEPLETED CASH RESERVES. HOWEVER, BANKS WERE UNDER MOF GUIDANCE NOT TO INCREASE LEVEL OF FINANCING; THUS SPECIAL MEASURES HAD BEEN LIMITED OFFICIAL USE

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NECESSARY TO HELP OUT REFINERS.

6. REGARDING PRESS REPORTS THAT REORGANIZATION OF JAPANESE OIL INDUSTRY WAS BEING PLANNED, KURIHARA SAID MITI WAS STUDYING SUCH PLANS. ONE QUESTION WAS WHETHER TO SUPPORT VERTICAL OR HORIZONTAL INTEGRATION. THUS FAR MITI INCLINED TOWARD VERTICAL CONCEPT. KURIHARA SAID MITI MIGHT ATTEMPT TO "GUIDE" FORMATION OF SUCH NEW COMBINED COMPANIES; HOWEVER, HE GAVE IMPRESSION THAT THIS WOULD NOT BE AN EASY TASK TO ACCOMPLISH. SHOESMITH

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